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## Key Credit Factors For The Real Estate Industry

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# Key Credit Factors For The Real Estate Industry

## OVERVIEW AND SCOPE

1. S&P Global Ratings is changing its key credit factors for rating real estate companies.
2. We intend the criteria to enhance the comparability and transparency of our real estate company ratings.
3. These criteria represent S&P Global Ratings' methodology and assumptions for rating real estate companies, including real estate investment trusts (REITs) and real estate operating companies, on a global basis. We define real estate companies as companies that derive a substantial majority of their EBITDA from rental income. (Single-family homebuilders are the subject of a separate Key Credit Factors report.)
4. We use the criteria to determine the ratings of real estate companies that generate relatively stable cash flows from property leases whose maturities are generally greater than one year. We define real estate companies as companies that majority-own a portfolio of stabilized real estate and derive a substantial majority of their EBITDA from property rental income. These include companies that are legally organized as REITs as well as non-REIT real estate operating companies. These criteria are not intended to apply to single-family homebuilders or to other companies that derive the majority of their EBITDA from real estate property development. These criteria typically do not apply to so-called specialty REITs, which are organized as REITs for tax or funding purposes but operate outside of the traditional property sectors. For example, these criteria do not apply to forest product REITs, cell tower REITs, and prison REITs.
5. The major changes to our methodology are as follows:
  - Revised ratio ranges for the funds from operations (FFO) to debt supplemental ratio. This revision will allow us to better differentiate between real estate companies with weaker financial metrics.
  - Under the revised methodology, we assess the subordination risk for creditors that may be at risk of low recovery in a default scenario by comparing the level of secured debt to total assets. We use a ratio of secured debt to total undepreciated assets, or secured debt to fair market value of assets, to help assess the degree to which secured debt encumbers a large proportion of the REIT's assets.

## IMPACT ON OUTSTANDING RATINGS

6. As a result of these criteria changes, we expect no changes to our issuer ratings, and no more than 5% of in-scope issuers to see a ratings change in one or more of their rated debt issuances. Of the issue-level credit ratings that could change, we expect the overwhelming majority to change by one notch.

## EFFECTIVE DATE

These criteria are effective immediately, except for those markets that require prior notification to and/or registration

by the local regulator, where the criteria will become effective when so notified by S&P Global Ratings and/or registered by the regulator.

## METHODOLOGY

### Part I: Business Risk Analysis

#### A. Industry Risk

8. Within the framework of S&P Global Ratings' general criteria for assessing industry risk (see "Methodology: Industry Risk," Nov. 19, 2013), we view real estate as a 'low risk' industry (Category 2). We derive our industry risk assessment for real estate companies from our view of the segment's 'intermediate' degree of cyclicality (Category 3), and our assessment that the industry is 'low risk' (Category 2) in terms of competitive risk and growth.
9. In our opinion, rated companies in the real estate industry usually have somewhat lower risk than most other industries and sectors, to the extent that these companies operate in developed markets, have sizable established property portfolios, and put only secondary emphasis on development activities. (Where a company operates in highly volatile and undeveloped markets, has a small portfolio, or puts a major emphasis on speculative development activities, it would be difficult for it to achieve an investment-grade rating, even with a conservatively leveraged capital structure.) In the past five years, there have been only a handful of payment defaults within the industry on rated corporate debt or instances of distressed exchanges, despite the turmoil in the real estate sector in certain markets during the 2007-2009 recession. (We treat distressed exchanges as tantamount to a default for rating purposes.) This low incidence of default among rated companies chiefly reflects the benefits afforded by diverse holdings of properties under long-term leases as well as the generally high quality of rated real estate portfolios that are institutionally managed by well-capitalized entities. In the U.S. and other developed countries, we believe the existence of bondholder-friendly covenants that restrict leverage and secured debt levels have also been a favorable rating factor. The risk profiles of rated real estate companies in developing markets vary widely, depending in part on local market characteristics and regulations. Industry dynamics also vary among the subsectors within real estate, such as office, industrial, retail, multifamily, hotel, and self-storage.
  1. **Cyclicality**
10. We assess the cyclicality of rated real estate companies as 'intermediate' (3). With a sufficiently large and diverse property portfolio and tenant base, rental income is fairly stable, even while property valuations are subject to wide and volatile fluctuations over the course of the business cycle. (In our financial analysis, we focus primarily on metrics where gains and losses on property sales are adjusted out, as are unrealized gains and losses on property valuation changes. We take a different approach to a real estate company with a business model that emphasizes trading in and out of properties on a short-term basis or with a business model that puts particular emphasis on developing properties for sale to third parties or related funds.)
11. On the negative side, the real estate sector is subject to economic cycles. We consider the emergence of real estate

bubbles because of the turmoil that can result when they burst. Real estate markets can be overbuilt, leading to depressed occupancy rates, rental rates, and property values. Competition for tenants can be intense. In terms of life cycle, the real estate sectors in the U.S., the EU, Australia, Japan, Hong Kong, and Singapore are fairly mature but still afford some opportunities for ongoing product reinvention. (One market-growth measure we track is absorption, the change in the total space that tenants occupy in a given geographic market or segment. We also track measures of changes in average market rent rates as well as the incentives that may be offered to tenants that can deflate the net value of nominal rent.) The business is somewhat capital intensive because of the significant investment required to develop new properties and maintain existing properties, and the resulting funding appetite makes the sector particularly subject to capital markets conditions and to changes in general interest rates.

12. The real estate industry has demonstrated an 'intermediate' degree of cyclicality in revenue and profitability, which are two key measures we use to derive an industry's cyclicality assessment. Based on our analysis of global financial data, companies in the real estate sector experienced an average peak-to-trough (PTT) decline in revenues of 7.4% during recessionary periods since 1968. (The data primarily reflect the performance of REITS. We believe the performance of non-REIT real estate operating companies has been similar.) Over the same period, real estate companies experienced an average PTT decline in EBITDA margin of 10.8%. These figures do not capture fluctuations in property valuations, which, depending on the country and subsector, were as high as 30% to 40%.
13. With an average drop in revenues of 7.4% and an average profitability decline of 10.8%, real estate companies' cyclicality score calibrates to an 'intermediate' risk (Category 3). We believe that in general, the higher the level of profitability cyclicality in an industry, the more this factor will contribute to credit risk of entities operating in that industry. However, the overall effect of cyclicality on an industry's risk profile may be mitigated or exacerbated by an industry's competitive conditions and growth environment.

## 2. Competitive risk and growth

14. We view the real estate industry as warranting a 'low' (2) competitive risk and growth assessment. To assess competitive risk and growth, we score four subfactors as 'low', 'medium,' or 'high' risk. These subfactors are:
  - Effectiveness of industry barriers to entry.
  - Level and trend of industry profit margins.
  - Risk of secular change and substitution by products, services, and technologies.
  - Risk in growth trends.

### a) Effectiveness of real estate industry's barriers to entry – medium risk

15. The real estate industry is fragmented, with most commercial real estate owned by individuals and small-scale operators. Barriers to entry are relatively low: There are few impediments to entering the business through acquisitions, other than capital. However, the capital that would be needed to replicate the scale and scope of larger real estate companies would be very substantial. Moreover, one major challenge for real estate companies is to optimize yields on their portfolios by attracting and retaining financially sound tenants at rents that afford an appropriate return on capital employed. In many cases, larger real estate companies have an advantage in sourcing and retaining higher-quality tenants because they are likely to have more capital to market and maintain their properties.

16. Barriers to entry by means of development are generally more significant, given the government permitting hurdles that must be overcome, the project management skills involved, and the large funding requirements related to land acquisition and construction financing. With respect to development, the barriers to entry are particularly high in some Asian countries given strict planning regulations that seek to maintain the community aspect of certain properties. For example, in Australia and Singapore, governments see regional shopping malls partly as a focus for community-based activities and services. Therefore, in some cases, local planning authorities limit competition by restricting new development in the vicinity of existing properties—particularly shopping malls that serve public housing communities. Also, in certain markets (including city-states such as Singapore and Hong Kong), land available for development is scarce.

**b) Level and trend of real estate industry profit margins – low risk**

17. While rated companies in the real estate industry pursue different business models, we consider the risk low that industry profit margin trends will shift materially. These companies typically have broad portfolios of properties, with some diversity in terms of geography and types of properties and tenants. Also, most business is conducted under non-cancelable, long-term leases, lending a high degree of stability to revenues. Even in the segments that operate with shorter lease durations (such as multifamily rentals and storage facilities), demand characteristics support relatively stable cash flows. Real estate companies, as this sector is defined here, derive the majority of revenues from rent, rather than from the sale of properties. Moreover, in some subsectors, leases pass through repair, maintenance, and other costs to tenants, as with triple net leases. These factors tend to lessen the impact of wide fluctuations in real estate property values and mitigate the impact of the business cycle on profitability.

**c) Risk of secular change and substitution of real estate industry properties by products, services, and technologies – low risk**

18. We view the risk of secular change and substitution by products, services, and technologies as 'low'. Although certain building types can become obsolete over time, changes in building design typically occur only slowly. While the green buildings policies of governments and corporate tenants are pressuring real estate companies to retrofit existing buildings, we do not anticipate that this will be a disruptive factor. We note that some property sectors (such as the retail property sector) could become more vulnerable to disintermediation over time as the Internet continues to alter the way products and services are sold and distributed.

**d) Risk in real estate industry growth trends – low risk**

19. While, in general, industry growth trends tend to be relatively stable and closely correlated with macroeconomic trends, a real estate company's growth strategy can minimize or increase this risk.
20. Aggressive development or redevelopment activity can heighten business risk for a real estate company. This is particularly the case if the company constructs sizable new facilities in new geographic markets or in new subsectors, and if these are not preleased in advance of construction. Similar risks can be taken on through acquisitions of properties that are under development, less than fully occupied, or are purchased with the intention that the sites become part of a larger master plan and refurbishment. (Note: In Japan, regulations prohibit REITs from engaging in full-scale/ground-up development activities.)
21. The ultimate risks for a real estate company are that:

- It will not maintain sufficient occupancy at its existing properties, attracting and retaining lessees at favorable lease rates.
- It will be overly aggressive in developing new properties or acquiring properties, failing to achieve returns that are sufficient to cover debt service requirements and other costs.

## B. Country Risk

22. Country risk plays a critical role in determining all ratings on companies in a given country, which is particularly true in the case of real estate companies. Country-related risk factors can have a substantial effect on company creditworthiness, both directly and indirectly. While our sovereign credit ratings suggest the general risk local entities face, the sovereign ratings might not fully capture the risk applicable to the private sector. We look beyond the sovereign rating to evaluate the specific economic, demographic, and other country risks that could affect the entity's creditworthiness.
23. In assessing country risk for a real estate company, our analysis uses the same methodology as with other corporate issuers (see global corporate criteria). For the real estate industry, such risks pertain to the extent to which the economy is subject to volatile cycles that can affect real estate prices, leasing activity, and rental rates; the tax treatment of real estate-related earnings; the legal and commercial framework for property ownership, building permits/licenses related to development activity, and lease contracts; government regulation of rental rates; the availability of mortgages and other forms of financing; tax incentives related to development activities; and the transparency and availability of market-related data.

## C. Competitive Position (Including Profitability)

24. Under our global corporate criteria, a company's competitive position is scored as (1) 'excellent,' (2) 'strong,' (3) 'satisfactory,' (4) 'fair,' (5) 'weak' or (6) 'vulnerable.' In assessing the competitive position for real estate companies, we review an individual company's:
- Competitive advantage.
  - Scale, scope, and diversity.
  - Operating efficiency.
  - Profitability.
25. The first three components are independently assessed as 1) 'strong,' 2) 'strong/adequate,' 3) 'adequate,' 4) 'adequate/weak,' or 5) 'weak.' After separately assessing competitive advantage, scale/scope/diversity, and operating efficiency, we determine the preliminary competitive position assessment by ascribing a specific weight to each component. The applicable weightings will depend on the company's competitive position group profile (CPGP). In the case of real estate companies, we apply a CPGP with a weighting of the three components as follows: competitive advantage (45%); scale, scope, and diversity (45%); and operating efficiency (10%). Profitability is assessed through the combination of two subcomponents: absolute profitability and the volatility of profitability.

## 1. Competitive advantage

26. A real estate company's competitive advantage reflects the quality of its asset profile, its market position, and the effectiveness of the company's business strategy and execution.

### a) Asset profile

27. In our assessment of asset profile, we focus on asset quality. Ultimately, we seek to gauge the volatility or stability of operating cash flow and asset values through an economic cycle because over the economic cycle, above-average quality asset can generally generate better returns and better stability of cash flow compared with below-average quality assets. We evaluate a company's asset quality to distinguish between prime and lower-quality holdings. The assessment considers:

- Location quality in an identified trade area (primary- or secondary-market categorization, and central business district compared with suburban versus rural location within a market).
- Property age and the extent to which the portfolio has been renovated.
- Seasoning of property holdings and the length of time under current management or ownership.
- Size of properties owned or controlled and their relative desirability to potential tenants as well as potential buyers and lenders.
- Any unique attributes, such as excess developable land, a very low historical cost basis in the assets, the existence of below-market leases, or environmental issues.

28. In assessing asset quality, net operating income (NOI) is a useful performance measure that directly reflects the revenues and expenses associated with owning and operating real estate properties and the impact on operations from trends in occupancy, rental rates, and operating costs. We define NOI as operating revenues (rental income, land, and condominium sales; tenant recoveries; and other income) less property and related expenses (real estate taxes, land and condominium sales operating costs, property maintenance costs, marketing, and other property expenses). NOI excludes general and administrative expenses, interest expense, property impairment charges, nonrecoverable development costs, depreciation and amortization, gains and losses from property dispositions or revaluations, allocations to noncontrolling interests, reorganization items, and extraordinary items. We assess NOI both on portfolio and property-by-property bases (where this data is available), considering such measures as NOI/revenues and NOI/investment in place. On a portfolio-wide basis, we also consider rental yield, which is net rental income as a percent of the current value of the investment property.

29. As part of our assessment of the asset profile, we consider a real estate company's exposure to development risk. Developing new properties can enhance the profitability of a real estate company to the extent companies can profitably grow their property portfolios through an alternative to property acquisitions (which may not be economically attractive during peak periods of the business cycle). In some cases, development risks are mitigated by build-to-suit arrangements with tenants, whereby tenants enter into leases under which they are committed to occupy the new buildings when completed. On the other hand, speculative development projects can significantly increase the business risk of a real estate company to the extent the company must fund construction costs over an extended period, where the ability to ultimately stabilize the property by securing tenants on favorable rent terms is subject to market conditions and other uncertainties. In evaluating development risk, we consider a company's appetite for development activity--in terms of the magnitude of the projects they are willing to undertake and the total size of the development backlog--and the company's track record in pursuing development opportunities. The company's



effectiveness in overseeing construction projects is a factor we consider under 'Operating Efficiency' (see below).

## **b) Market position**

30. We assess the company's standing in the broader real estate sector as well as the company's shares of the markets in which it directly participates. We believe market share can indicate a company's resilience in a cyclical downturn (because larger players might be better able to attract and retain tenants) or in a highly competitive environment. The assessment also takes into consideration an entity's overall size and ranking (as an owner, manager, or both) relative to a subsector of publicly rated peers. The importance of a strong market position can vary depending on a real estate company's property focus and operating strategy. For example, for many retail real estate companies, leverage as a landlord is critical, given the concentration among major retail tenants (which might prefer to negotiate standardized lease agreements for numerous locations). Scale in this subsector is materially more important to long-term success than might be the case for an apartment REIT owner, which caters to a tenant base composed primarily of individuals.
31. An important metric for assessing a real estate company's pricing power is its rental income per square foot or meter (or other unit of measurement) compared with peers and regional and property-type averages. In interpreting this metric, it is important to consider the company's investment in tenant improvements in conjunction with new leases and lease renewals: Inordinately high investment requirements can impinge on the economics of seemingly high rental rates and are typically associated with an aging or lower-quality portfolio. Likewise, it is important to take account of the company's occupancy rate. Naturally, the ideal combination is premium rental rates and high occupancy. If premium rental rates are only achieved with a material decline in occupancy, that might ultimately undermine financial performance. There could be valid reasons to emphasize rent or occupancy at different points in a cycle, but, from a credit perspective, the optimal goal is cash flow maximization. This might affect the weighted average lease maturity profile (by income) if the more difficult market conditions require the REIT to enter into shorter duration leases to maintain occupancy levels and rental growth. Moreover, a company's position with respect to rental rates must be assessed with a view to its scheduled lease maturities: If it has a concentration of above-current-market leases that are nearing expiration, a material decline in rental income will likely be in the offing.
32. In certain sectors, other performance metrics are useful. For example, tenant sales per square foot, or meter, and occupancy cost (rent as a percentage of the tenant's sales) are key performance measures for retail property portfolios. Similarly, we consider revenue per available room (RevPAR, which is the average daily room rate multiplied by the occupancy rate) for hotels. We also consider measures of net effective rent, taking account of tenant incentives.
33. In tracking operating metrics such as rental income per square foot or meter and occupancy rates, we emphasize period-to-period comparisons that are adjusted on a same-store basis and incorporate operating costs (same-store NOI), given the distortions that can otherwise result from acquisitions, divestitures, and development projects coming on stream.

## **c) Business strategy**

34. In our assessment of business strategy, we focus on a REIT's ability to create a durable competitive advantage through its operating strategy execution, encompassing the track record and experience of the management team, as demonstrated by its operating strategy, operating business model and drivers of expected growth, and the ability to time (and appropriately underwrite) acquisitions and disposals. We also consider how well placed the strategy is to

anticipate and meet the future needs of the REIT's tenant base.

35. A real estate company with a 'strong' or 'strong/adequate' competitive advantage assessment typically is characterized by a combination of:

- A high-quality asset base based on location, age, condition, and length of time under ownership.
- Proven ability to attract and retain financially strong tenants, with leases at rent rates that compare favorably to market norms.
- An above-average property type or subsector market share relative to peers.
- Pursues development to only a limited extent and chooses development projects cautiously, focusing on situations where there are solid prospects for achieving stabilization.
- A clearly articulated growth strategy and ability to generate consistent positive risk-adjusted returns.

36. A real estate company with a 'weak' or 'adequate/weak' competitive advantage assessment typically is characterized by a combination of:

- A poor-quality asset base based on location, age, condition, and length of time under ownership.
- A relatively high-risk tenant base, with leases that lag industry norms in terms of tenant credit quality.
- The company is not a dominant market participant relative to publicly rated peers.
- The company aggressively pursues development projects where the sustainability of favorable market conditions is questionable.
- Its growth strategy is erratic or unclear, and management has made significant implementation missteps.

## **2. Scale, scope, and diversity**

37. In assessing a real estate company's scale, scope, and diversity, we consider the characteristics of the particular property sectors (retail, office, multifamily, hotel, or other) and geographic markets (country, state, city, and region) in which the company participates, in terms of such characteristics as demand drivers, current occupancy levels, and expected new supply. Within the broader real estate market, specific sector and geographic market fundamentals can vary widely and can change over time.

### **a) Scale**

38. In assessing a real estate company's scale, we consider the absolute size of the property portfolio in terms of the number of properties and their total market value. We consider how the size of the portfolio could affect the operating stability of the real estate company throughout a property cycle.

### **b) Scope and diversity**

39. In assessing a real estate company's scope and diversity, we consider its geographic footprint, property type mix, and tenant mix. Although it is generally more favorable from a credit perspective for a company to participate across varied geographic markets, companies with high regional concentrations might be able to offset concentration risk if their local market share or the position of their properties translates into clear portfolio outperformance over a cycle. This perspective is particularly important in considering companies that participate in markets such as Singapore and Hong Kong, which have a high concentration of commercial real estate assets.

40. In assessing scope and diversity, we evaluate exposure to a major asset (or cluster of assets) in terms of contribution to cash flow and invested capital. Major tenant concentrations or tenant industry concentrations, the respective credit

quality of key tenants, and overall retention rates also are scrutinized. Where there are tenant concentrations, we consider the credit profile of major tenants to assess the potential for competitive setbacks to result in diminished space requirements or payment defaults on lease obligations. In addition, the portfolio-level analysis includes:

- The range of property-level returns (which might vary materially by market, asset age, or seasoning under management).
- Any meaningful exposure to scheduled lease rollovers (either because of generally weak market conditions and/or contracting tenants within certain industries). The percentage of leases scheduled to mature in each year over the next several years is an important metric in considering lease rollovers.

41. A real estate company with a 'strong' or 'strong/adequate' assessment of its scale, scope, and diversity typically is characterized by a combination of:

- It operates in a variety of geographic markets characterized by healthy supply and demand characteristics that are able to support high property occupancy levels and favorable rent rates.
- It has a large portfolio of well-positioned, well-performing properties without having significant concentrations in individual properties.
- It is not overly dependent on its largest tenants or exposed to concentrated pockets of economic activity that might have a profound impact on its tenants' creditworthiness.
- It has a preponderance of long-term leases, with expirations that are evenly-staggered.
- It is successful in generating consistent rates of return if competing across several property types or subsectors.

42. A real estate company with a 'weak' or 'adequate/weak' scale, scope, and diversity assessment typically is characterized by a combination of:

- It operates in a limited number of geographic markets, and its markets are characterized by excess supply and weak demand, making it challenging to sustain satisfactory occupancy levels and rent levels.
- It is highly dependent on a relatively small number of properties, and these properties are not particularly well-positioned.
- It has a concentrated exposure to local economic drivers that determine levels of tenant demand and creditworthiness.
- It is highly dependent on its largest tenants, and these tenants are not financially strong.
- A significant portion of its leases mature over the next few years.

### **3. Operating efficiency**

43. Matters of operating efficiency--including cost structure, working capital management, business processes, and technology--are generally secondary considerations. However, sometimes companies that operate on a relatively small scale can partly offset the disadvantage this entails by being highly efficient. In addition, evaluating property management skills--whether this function is handled directly or through third parties--could be an important rating consideration in some cases because it has a bearing on a real estate company's individual asset performance.

44. Matters of operating efficiency have particular significance in the context of development or redevelopment projects, where it is important for projects to be completed on time and within budget, if the profit potential of the investment entailed is to be fully realized.

45. In addition, how broad a company's management skill set is or how deep its talent pool might affect its ability to

maintain a competitively positioned portfolio over the long run and respond to changing market dynamics. It could also influence the range of investment opportunities the company can pursue. In light of these considerations, larger portfolios can enable real estate companies to better leverage overhead as well as critical investments in technology and systems infrastructure.

46. For a company to be viewed as warranting a 'strong' or 'strong/adequate' operating efficiency score: It typically has a large portfolio of well-performing properties; it is able to attract sound tenants and command rents that are competitive by local market standards; and it has lower-than-average operating costs compared with peers. Where the company undertakes significant development and redevelopment projects, these are completed in a timely fashion and within the initially targeted budget.
47. For a company to warrant an 'adequate/weak' or 'weak' operating efficiency score, it typically has outmoded properties that are not able to function efficiently, as reflected in lower-than-market-average rents and occupancy and higher-than-average operating costs. Where the company undertakes significant development and redevelopment projects, these sometimes experience delays and cost overruns that mar the company's return on investment.

#### **4. Profitability**

48. The profitability assessment can confirm or modify the preliminary competitive position assessment. The profitability assessment consists of two components: 1) the level of profitability; and 2) the volatility of profitability. The two components are combined into the final profitability assessment using a matrix. To assess volatility, we require several years of historical data. When we do not have such historical data, we perform the volatility assessment based on peer analysis.
49. The EBITDA margin is the primary metric that we use to evaluate profitability for (non-triple net lease) real estate companies. We also consider return on capital, though this measure is subject to accounting differences in the determination of asset-carrying values (as discussed in the "Accounting and analytical adjustments" section below). Profitability is calculated on a three-point scale: 'above average,' 'average,' and 'below average.' The EBITDA margin is affected by the structure of a company's leases: For example, under so-called triple net leases, property-related operating costs are almost all passed through to the tenant, so real estate companies with leases that are predominantly in this form have EBITDA margins that are significantly higher than otherwise would be the case. (However, the very high operating margin that results is not necessarily indicative of superior profitability because the return on capital could be low and there might still be uncertainty surrounding lease renewals and the credit quality of tenants.) Also, EBITDA margin is affected by the property tax regimes of the jurisdictions where a company operates. In addition, when companies mark property values to market (as under international financial reporting financial standards [IFRS]; see 'Accounting' section below), the return on capital is affected by fluctuations in market values. Given these factors, in assessing whether a company's profitability is above average, average, or below average, we emphasize comparisons with similarly positioned peers.
50. In analyzing profitability, our focus is on recurring earnings. It is part of the business model of many real estate companies to buy and sell properties and, arguably, gains or losses stemming from such transactions are therefore part of normal operations. In our assessment of profitability, we do take into account companies' ability to realize value through portfolio management actions. Still, in calculating the above profitability measures, we typically exclude

realized gains and losses to get a clearer indication of the ongoing profit potential of the underlying property portfolio and to facilitate comparability. Similarly, when companies are pursuing restructuring efforts or cost-reduction programs that render charges to the income statement, we follow the Ratios and Adjustments criteria and analyze ratios including these costs. We also reverse asset-impairment charges and the fair-value fluctuations in asset values, derivative instruments, and the company's own debt.

#### **a) Level of profitability**

51. The level of profitability is calculated on a three-point scale: 'above average,' 'average,' and 'below average.' We consider a real estate company's EBITDA margin and return on capital compared with peers with similar property portfolios in terms of property types, lease structures, and markets served. A real estate company with above-average profitability generates an EBITDA margin, return on capital, or both that are consistently higher than similarly positioned peers. A real estate company with below-average profitability generates an EBITDA margin, return on capital, or both that are consistently lower than similarly positioned peers.

#### **b) Volatility of profitability**

52. Volatility of profitability is calculated using the standard error of regression (SER), in accordance with our global corporate criteria. EBITDA margin and return on capital are the metrics we use to calculate the SER for real estate companies. We only calculate SER when companies have at least seven years of historical annual data to ensure the results are more meaningful.
53. As with level of profitability, we evaluate a company's SER in the context of its peer group. We utilize a six-point scale, with the '1' category capturing the least volatile companies in a given peer group, (those with the lowest SERs) and the '6' category capturing the most volatile companies (those with the highest SERs).

## **Part II: Financial Risk Analysis**

### **D. Accounting And Analytical Adjustments**

54. Our analysis of a company's financial statements begins with a review of the accounting to determine whether the statements accurately measure a company's performance and position relative to its peers and the larger universe of corporate entities. To allow for globally consistent and comparable financial analyses, our rating analysis may include quantitative adjustments to a company's reported results. These adjustments also enable better alignment of a company's reported figures with our view of underlying economic conditions. Moreover, they allow a more accurate portrayal of a company's ongoing business. Adjustments that pertain broadly to all corporate sectors, including this sector, are discussed in "Corporate Methodology: Ratios And Adjustments," Nov. 19, 2013. Accounting characteristics and analytical adjustments that are unique to this sector are discussed below. Our accounting adjustments for real estate companies follow the methodologies applied to companies in other industries, with the following adjustments being particularly significant in our approach.

## 1. Straight-line rent

55. The accounting treatment of rent payments received under real estate leases is to average them out over the life of the lease. Consequently, reported rent revenue may differ from actual cash rent received where the minimum rent payment varies over the life of the lease, such as when there are periodic contractual rent increases or when the lease provides for an initial period with no rent or with discounted rent, following which normal periodic cash rent payments are required. Depending on the terms of leases and the life cycle of leases in place, rent received may be higher or lower than reported rental income. For real estate companies, we will reverse, when material, the straight-line rent smoothing in calculating EBITDA and various profitability measures. This is consistent with industry standards and with our focus in this sector on the amount of cash rent actually received by the company during the period.

### a) Adjustment procedures

56. We adjust revenues, EBIT, EBITDA, and FFO, by the amount that straight-line rental revenue reported exceeds or falls below cash rents received for the respective period. We reduce revenues, EBIT, EBITDA, and FFO by the amount straight-line rental revenue exceeds actual cash rents received and we increase revenues, EBIT, EBITDA, and FFO by the amount straight-line rental revenue falls below cash rents received.

## 2. Unconsolidated affiliates

57. It is common for real estate companies to conduct a meaningful portion of their business through partly owned subsidiaries or joint ventures, thereby sharing risks with other owners. These entities are often organized around individual properties or groups of properties and have their own external debt financing. Under accounting standards, these affiliates are generally accounted for using the equity method if the company's ownership interest is 50% or less. From an analytical perspective, equity method accounting can understate the true extent of financial leverage within the broader group. We may adjust the financial statements to exclude dividends received and reflect pro rata consolidation of debt, earnings, and interest expense if, in our view, this more meaningfully depicts the economic reality. If we believe the company is highly likely to support all the affiliates' obligations--given a lack of alignment between incentives or financial wherewithal on the part of the company versus its partners--we will apply the same adjustments for consolidating the entity as consistent with our criteria for analytical adjustments (see "Corporate Methodology: Ratios And Adjustments," published Nov. 19, 2013). Alternatively, if we believe a company is unlikely to support the debt of an ailing affiliate, we might exclude that affiliate from our financial measures, even if it is fully consolidated for financial reporting purposes. Even though these debt obligations are typically nonrecourse property-level debt, we will only exclude the ailing affiliate's debt from our financial measures if we believe the failure to support the affiliate will not limit the issuer's access to capital markets. Additionally, in order for us to exclude the debt of these affiliates, the debt should not have cross-default, cross-acceleration, or any similar influence on the debt issued by the real estate company. Some examples of entities for which we may exclude debt from our financial measures, if we believe that the real estate company will not support the debt, include:

- Minority-owned joint ventures
- Properties included in commercial mortgage backed securitizations

## 3. Asset valuation and depreciation

58. Even when companies pursue a strategy of developing or acquiring properties and then retaining them indefinitely in their portfolios, it is critical for us to monitor changes in the valuation of properties over time, both in absolute terms

and relative to market indices. Valuation changes can say a lot about the relative desirability of a company's properties, the company's ability to attract tenants willing to pay market-level or even premium rents, and, ultimately, the company's ability to obtain financing at both the property and corporate levels.

59. Across all industry sectors, the use of varying accounting frameworks greatly increases the challenges of making peer comparisons. In the real estate sector, a key consideration is always the basis used for valuing real estate properties. Companies that report under IFRS generally carry properties on a mark-to-market/fair-value basis, with changes in value flowing through the income statement. Companies that report under U.S. generally accepted accounting principles (GAAP) generally use historical cost-basis accounting--which is the norm among U.S. companies--though they have the option to use a mark-to-market approach.
60. Where companies use mark-to-market accounting, the valuation of properties as of each balance sheet date should bear a closer resemblance to then-current market realities than would otherwise be the case--albeit the fluctuations can be volatile over time. In the case of such companies, we seek to assess the methodology employed for determining market values. Where companies use mark-to-market accounting, the ratio of debt to assets or debt to capital is useful as a measure of financial leverage.
61. For companies that use historical cost-basis accounting, the standardized depreciation of assets for financial reporting purposes may have little bearing on market realities; indeed, well-positioned properties may appreciate in value over time. For this reason, in assessing the financial leverage of such companies in the real estate sector, we consider a supplementary ratio (see 'Cash flow/leverage' section below), debt-to-debt-plus-equity on an undepreciated basis--i.e., where accumulated depreciation is added back to equity.
62. Debt-to-debt-plus-equity using the stock market value of equity rather than book value is one measure that bridges the differences between mark-to-market accounting and historical cost accounting. However, this measure is also highly subject to stock market volatility.

#### **4. Capitalized interest**

63. Real estate companies engaged in sizable debt-financed development projects may capitalize a significant amount of their cash interest costs, thereby deferring the recognition of interest expense on the income statement. For our analytical purposes, we factor in capitalized interest as an expense in the period when incurred. The valuation of property, plant, and equipment (PP&E) includes, under GAAP, a cost-of-carry element relating to multi-period project expenditures. Part of the rationale is that the company must factor in the carrying costs when deciding on a project's economics, but this obscures the amount that actually must be paid during the period. Companies may also have significant discretion with respect to the amounts they capitalize, making comparisons difficult. Accordingly, we prefer to focus on the total cash interest cost, using the approach outlined in the Ratios and Adjustments criteria.

#### **5. Cash flow/leverage analysis**

64. The pattern of cash flow generation, current and future, in relation to cash obligations is often the best indicator of a company's financial risk. Cash flow/leverage analysis is the foundation for assessing an issuer's financial risk profile. The assessment of a corporate's cash flow/leverage is assessed on a scale of 1) 'minimal,' 2) 'modest,' 3) 'intermediate,' 4) 'significant,' 5) 'aggressive,' and 6) 'highly leveraged.'

**Table 1****Real Estate Industry--Core And Supplemental Ratios For Assessing Cash Flow/Leverage**

<b>Core ratios</b>			
	<b>Debt/EBITDA (x)</b>	<b>EBITDA/interest (x)</b>	<b>Fixed-charge coverage (x)*</b>
Minimal	Less than 2.5	Greater than 4.5	Greater than 3.7
Modest	>= 2.5-4.5	> 3.8-4.5	> 3.1-3.7
Intermediate	> 4.5-7.5	> 2.4-3.8	> 2.1-3.1
Significant	> 7.5-9.5	> 1.8-2.4	> 1.7-2.1
Aggressive	> 9.5-13	>= 1.3-1.8	>= 1.3-1.7
Highly Leveraged	Greater than 13	Less than 1.3	Less than 1.3
<b>Supplemental ratios</b>			
	<b>FFO/debt (%)</b>	<b>Debt/debt + equity (undepreciated basis) (%)¶</b>	<b>Debt/Debt + Equity (fair value basis) (%)§</b>
Minimal	Greater than 20	Less than 30	Less than 25
Modest	> 15-20	>= 30-40	>= 25-35
Intermediate	> 9-15	> 40-55	> 35-50
Significant	> 7-9	> 55-65	> 50-60
Aggressive	>= 5-7	> 65-70	> 60-65
Highly leveraged	Less than 5	Greater than 70	Greater than 65

\*Fixed-charge coverage: EBITDA/interest incurred + regularly scheduled debt principal amortization + preferred dividends. ¶To be used only for historical cost basis companies. §To be used only for companies that mark property values to market, such as under IFRS.

**6. Core ratios**

65. In assessing the cash flow/leverage of real estate companies, we use three core ratios: debt/EBITDA, EBITDA interest coverage, and what we term fixed-charge coverage. The first two are the same measures, defined as core or supplementary in the global corporate criteria. However, if an industry exhibits low levels of volatility, the threshold levels for the applicable ratios to achieve a given cash flow/leverage assessment are less stringent, though the width of the ratio range is narrower. Accordingly, we utilize the benchmark ranges for these ratios given in Table 1 in the assessment of real estate companies instead of those included in the global corporate criteria.
66. In the case of real estate companies, we include a third core ratio--fixed-charge coverage--which we define as follows: EBITDA/interest incurred (including capitalized interest) + regularly scheduled debt principal amortization + preferred dividends. We believe that in most jurisdictions, real estate companies organized as REITs are particularly reluctant to curtail or eliminate their common dividends, as discussed in the 'Financial Policy' section below. Accordingly, we also view REITs as being somewhat more reluctant than other corporates to defer or suspend dividends on preferred stock and other types of hybrid capital issues because dividend stopper provisions usually prevent issuers from paying dividends on common stock when this has occurred. Separately, most REITs in the U.S. use amortizing mortgage debt as a property-level funding source, and the ongoing amortization payments are tantamount to being another type of fixed charge. When such characteristics are present, we emphasize fixed-charge coverage more than the other core ratios. Otherwise, we would generally emphasize the other two core ratios.



## 7. Supplemental ratios

67. In the case of real estate companies, we also consider FFO/debt as a supplemental ratio, which is included as a core ratio in the global corporate criteria, but for which we again utilize an alternative set of benchmarks given the relative stability of the real estate industry (see Table 1). In addition, we use the traditional measure of financial leverage--total debt-to-debt-plus-equity--because, in our view, this ratio best reflects the means by which a real estate company has chosen to fund its property portfolio. In calculating this ratio, we apply our standard analytical adjustments (see Ratios and Adjustments criteria). However, for real estate companies that use historical cost-basis accounting (as is predominant under U.S. GAAP), the standardized depreciation of assets for financial reporting purposes may have little bearing on real estate property market realities. Indeed, well-positioned properties may appreciate in value over time. For this reason, in assessing the financial leverage of such companies in the real estate sector, we focus on debt-to-debt-plus-equity on an undepreciated basis--i.e., where accumulated depreciation is added back to reported equity. (Previously recorded impairment charges are not added back to reported equity.) For real estate companies that use mark-to-market accounting (which is most common under IFRS), depreciation is not recorded, but debt-to-debt-plus-equity ratios derived from reported financials are still not comparable with those calculated on an undepreciated basis, where historical cost-basis accounting is the starting point. This is why there is a need for the alternative benchmarks in Table 1.

## Part III: Rating Modifiers

### E. Diversification/Portfolio Effect

68. In assessing the diversification/portfolio effect of real estate companies with multiple other business lines, we apply the global corporate criteria. However, in actuality, it is rare to find such diversification in the real estate sector. In most jurisdictions, REITs are required to own real estate assets almost exclusively. (The extent of such restrictions varies by jurisdiction. See "Global REIT Market Moving Apace, As Ratings Convergence Anticipated," June 15, 2006.) Even where such restrictions do not apply, the managements of almost all real estate companies focus exclusively on the real estate business. (Note: When a real estate company participates in different real estate sectors, that type of diversification is considered as part of 'Scale, Scope, and Diversity,' as discussed above.)

### F. Capital Structure

69. In assessing the capital structure of a real estate company, we analyze the following four subfactors: 1) Currency risk of debt; 2) Debt maturity profile; 3) Interest rate risk of debt; and 4) Investments. As outlined in the global corporate criteria, the analysis of these subfactors can result in an assessment of an issuer's capital structure as 'very positive,' 'positive,' 'neutral,' 'negative,' or 'very negative.'
70. We are skeptical that even the real estate companies with the strongest credit quality will have unfettered access to the capital markets--including access to uncommitted bank credit--throughout all stages of the business cycle. Indeed, we note that along with the wide cyclical swings to which real estate market conditions have been subject, there have often been considerable fluctuations in the sentiments of bondholders and banks with respect to the

sector--particularly in the case of unsecured debt. For this reason, we pay close attention to the maturity structures of real estate companies, looking out over an extended time horizon, not just the next few years. For the sake of maturity structure analysis, we generally include the company's pro rata share of unconsolidated debt, even if the debt is nonrecourse to the company and we exclude it from other financial measures. We also include as debt maturities required debt amortization payments.

71. Because the revenue of real estate companies is predominantly derived from rental payments received under long-term leases, there may be limited ability to respond to unanticipated cost inflation where automatic cost pass-through is not explicitly provided for under the terms of leases. (In some cases, leases provide for CPI-based rate increases.) For this reason, relying on variable-rate debt can pose heightened risks, given the potential for a rise in interest rates. In our analysis of capital structure, we put particular emphasis on the fixed/floating-rate mix of borrowings as well as measures taken to mitigate the interest rate risk inherent in floating-rate debt, such as entering into swaps. An additional consideration is lender diversity: the extent to which a REIT may be reliant upon a limited number of financing providers.
72. Thus, in the case of real estate companies, unless the company's total debt load is relatively modest, our preliminary assessment of capital structure would be 'negative' if the weighted average maturity is less than three years or if there is an inordinate amount of unhedged interest rate exposure (even if covenant compliance would not be directly jeopardized by a 25% or 100 basis-point upward shift in the base in rate of the floating-rate debt). Our preliminary assessment of capital structure would be 'very negative' if both of these conclusions apply. This preliminary assessment may be modified by our assessment of the investment subfactor, as outlined in our global corporate criteria.

## **G. Liquidity**

73. The key measures of a real estate company's liquidity are explained in "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," Dec. 16, 2014, and "Credit FAQ: How Standard & Poor's Applies Its Liquidity Descriptors For Global Corporate Issuers To North American Real Estate Companies," Oct. 12, 2011. Our general liquidity criteria specify certain tests for defining each liquidity category (exceptional, strong, adequate, less than adequate, and weak), including the requirements that defined sources cover defined uses of liquidity, even with a specified percent decline in EBITDA, and that there be sufficient covenant headroom for forecasted EBITDA to decline by a specified percent without the company breaching covenant coverage tests.
74. For example, we state that characteristics of a company with adequate liquidity include positive sources minus uses, even if forecasted EBITDA declines by 15%, there is sufficient headroom for forecasted EBITDA to decline by 15% without the company breaching coverage tests included among financial covenants, and debt is 15% below covenant limits (or, if not, the related facilities are not material). Because we view the rated real estate companies as being exceptionally stable, we use the guidelines below (see Table 2) instead for the EBITDA decline for each of the liquidity descriptors.
75. In applying the global corporate liquidity criteria to real estate companies, we generally treat REITs' common

dividends as a use of cash, given the relative inflexibility of REITs' dividend payout policies, as discussed under 'Financial Policy' below. We generally do not include maturities related to nonrecourse property-level secured debt, such as minority owned joint ventures and properties included in commercial mortgage-backed securitizations, as a use of cash unless we have a specific expectation that the company will support this debt. Our exclusion of these nonrecourse, property-level debt maturities is consistent with the conditions for treatment of debt for "Unconsolidated Affiliates" in the section "Accounting And Analytical Adjustments" above. In the real estate sector, companies regularly walk away from the debt of underperforming properties, without incurring the market stigma such an action might create in other sectors. However, we will only exclude the debt of ailing affiliates from our Liquidity calculations if we believe the failure to support the affiliate will not limit the issuer's access to capital markets. While our cash flow and leverage ratio calculations incorporate all debt (including nonrecourse, property-level debt), we exclude nonrecourse property-level debt from our calculation of uses of liquidity for the real estate sector. This is based on our expectations that performing properties will refinance their nonrecourse debt, or that the REIT can dispose of or walk away from underperforming properties and it will not have to support associated nonrecourse debt.

76. In the real estate industry, where companies have substantial unencumbered assets, this can be a critical source of financial flexibility, given the very large and liquid market for property-specific mortgages. In applying our liquidity criteria to a real estate company, where the company is viewed as being on the cusp between two different liquidity descriptors, the extent of unencumbered assets compared to potential liquidity uses can be a deciding factor.

**Table 2**

<b>Liquidity Descriptors</b>			
<b>(%)</b>	<b>Real estate guidelines</b>	<b>General corporate guidelines</b>	
Exceptional	30	50	
Strong	15	30	
Adequate	10	15	
Less than adequate	5	10	
Weak	--	--	

## H. Financial Policy

77. In assessing the financial policy of a real estate company, our analysis uses the same methodology as with other corporate issuers (see global corporate criteria).
78. The overall dividend policy is particularly critical for REITs, which are essentially pass-through vehicles by design. Historically, equity investors in REITs have been attracted by the perceived stability of REITs' dividends. Moreover, in most jurisdictions, once a company has qualified as a REIT and therefore is not subject to corporate income tax, the tax code requires the company to distribute a high percentage of taxable income to shareholders or lose its qualification as a REIT. Together, these factors imply a relatively high degree of inflexibility to REITs' dividend policies.

## I. Management And Governance

79. In assessing management and governance of a real estate company, our analysis uses the same methodology as with other corporate issuers (see global corporate criteria).
80. As part of our assessment of strategy, we consider the mechanisms the company has in place to execute its strategies, including:
- Relative quality and appropriateness of current operating and financial management information and reporting systems.
  - Current and expected functional organizational structure (including the appropriate regional and/or field management, leasing, and/or development staff functions).
  - Current and expected legal organization structure (including aspects of parent-subsidiary relationships and ties with other affiliated entities).
  - Track record on execution of key strategic projects and targets.
81. In some cases, real estate companies enter into arrangements with third parties to manage their businesses. (Sometimes, third-party management is required under local regulations, which limits the internal management of the entity.) These arrangements can be problematic from a credit perspective if the compensation of the third parties is structured in such a way that their interests are not aligned with those of equity and debt holders, and/or there are shortcomings in the effectiveness of board oversight. For example, there have been examples where management compensation was designed to prioritize growth over profitability and financial prudence. When we view third-party management as problematic in this way, we assess management culture as negative and consequently assess management and governance as weak.

## J. Comparable Ratings Analysis

82. In assessing the comparable ratings analysis of a real estate company, our analysis uses the same methodology as with other corporate issuers (see "corporate criteria").

## K. Issue Ratings

83. Issue ratings for investment-grade real estate companies domiciled or primarily operating in Group A & B rank jurisdictions (see "Methodology: Jurisdiction Ranking Assessments," published Jan. 20, 2016) would be assigned using these criteria. These criteria also apply to the issue ratings of speculative-grade real estate companies domiciled or primarily operating in Group A & B rank jurisdictions, where we do not assign recovery ratings. Issue ratings for speculative-grade real estate companies in Group A & B rank jurisdictions, where we do assign recovery ratings are assessed using our criteria "Recovery Rating Criteria for Speculative-Grade Corporate Issuers," published Dec. 7, 2016. Issue ratings for investment-grade and speculative-grade real estate companies in Group C or in unranked jurisdictions would be assessed using our criteria "Reflecting Subordination Risk In Corporate Issue Ratings," published Sept. 21, 2017.

84. Since real estate companies typically do not raise unsecured debt at the property level in order to optimize their cost of capital, subordination risk can be measured by comparing the level of secured debt to total assets. In the majority of cases we equate the rating of the unsecured debt with that of the issuer credit rating (ICR) if we believe the level of collateral coverage is sufficient for unsecured lenders.
85. We believe senior unsecured debtholders could be at risk of relatively low recovery in a default scenario if there is a significant proportion of senior secured debt in their capital structure. This is because a large proportion of secured debt encumbers a large proportion of the REIT's assets, which could result in less value available for unsecured lenders. When the percentage of secured debt exceeds 35% of total undepreciated assets (or 40% of the fair market value of assets), we typically rate senior unsecured debt one notch below the corporate credit rating. In some situations, we may also take into account the percentage of consolidated net operating income that is generated from unencumbered assets. This could be appropriate, for example, when the issuer's unencumbered assets contribute a very small proportion of the overall consolidated net operating income. Alternatively, this may also be the case when the issuer has a high percentage of unencumbered properties that are just beginning to contribute meaningful amounts of net operating income.
86. We recognize that the ratio of secured debt to total undepreciated assets (or the fair market value of assets) is not a direct measure of the collateral coverage available for unsecured lenders. If we believe the level of collateral coverage for unsecured lenders is sufficient despite a higher ratio of secured debt to undepreciated assets (or fair market value of assets) than outlined above, we may not notch down the unsecured debt. For example, if overall leverage is relatively low, unsecured lenders could be sufficiently covered despite a relatively high proportion of secured debt and we would therefore equate the rating of the unsecured debt with the issuer credit rating.
87. In creditor-friendly jurisdictions, such as Australia and the U.K., the secured debt issued by an investment-grade REIT in the 'BBB' or 'A' category can benefit from substantial overcollateralization. In our analysis, this has enabled us to notch-up issue ratings--by one notch for issuers in the 'BBB' rating category (assuming collateral coverage of greater than 1.5x) and two notches for issuers in the 'BBB' rating category (assuming collateral coverage of greater than 2.0x). For issuers in the 'A' category, we cap the issue rating notching to one notch (assuming collateral coverage of greater than 2.0x). The weight given to recovery in assigning issue ratings diminishes as one moves up the rating spectrum. For 'AAA' and 'AA' categories, notching-up is phased out entirely.

### **Effective date and transition**

88. The key credit factors for rating real estate companies article should be read in conjunction with our global corporate criteria (see "Corporate Methodology," Nov. 19, 2013) and is related to "Principles Of Credit Ratings," published Feb. 16, 2011.
89. The criteria amend and partially supersede the:
- 'Competitive Position' section of the global corporate criteria when evaluating real estate companies.
  - 'Cash flow/Leverage' section of the global corporate criteria for the purpose of evaluating real estate companies.
  - "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," Dec. 16, 2014.
90. All other sections of the global corporate criteria apply to the analysis of real estate companies.

## **RELATED CRITERIA AND RESEARCH**

- Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Credit FAQ: What's So Special About Specialty REITs? March 5, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as S&P Global Ratings assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

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